

Before the
The Committee on Government Operations and the
Committee on Finance and Revenue
Of the
Council of the District of Columbia
Joint Public Hearing
On the
**Electric Company Infrastructure Improvement Financing
Act of 2013**

Statement of Sandra Mattavous Frye
People's Counsel

Good Afternoon Chairman McDuffie, Chairman Evans, and other members of the Committee. For the record, I am Sandra Mattavous-Frye. I serve as People's Counsel for the District of Columbia.

I want to thank the Committee for providing me the opportunity to provide testimony today on the Electric Company Infrastructure Improvement Financing Act of 2013.

The legislation before you is a significant achievement forged by a unique collaboration among a diverse group of stakeholders. The goal of the collaborative was to improve and enhance the reliability of the electric distribution system in the District of Columbia in a timely and affordable manner. It represents a reversal of an **"It can't be done"** attitude that has hindered the provision of reliable electric service to DC consumers for a decade and a half. It achieves a goal the Office of the People's Counsel has tirelessly championed and the people have demanded. I can honestly say, I was among the skeptics, and there were many points

during the process where it appeared there would be no positive outcome. The outcome, however, is a good one for the District and District consumers.

Throughout my term I have emphasized the importance of consumers having a voice at the table where utility issues are being decided. Consumers' concerns about repeated, unexplained, and prolonged power outages were unrelenting. It was everyday consumers who first sounded the alarm to indicate that service reliability was not as it should be. It was everyday consumers who said "enough is enough," and who demanded a more storm resilient distribution system, fewer storm-related outages, and shorter restoration times when service was interrupted. OPC presented these concerns to the Commission and to the City Council. These concerns are a large part of the reason why we are here today!

We've heard many of the details of the undergrounding plan today. I will not reiterate them. In my testimony I will discuss:

(1) Why did we do it; (2) Why did OPC participate and what was our role; (3) What was accomplished; (4) What are the consumer benefits and protections; and (5) going forward, how will consumers participate in the process?

I. Why did we do it?

Put simply, something had to be done! DC residents were fed up and inaction was not an option. Their experience revealed persistently poor reliability of the electric distribution system in the District and a disturbing vulnerability of Pepco's overhead distribution lines during severe weather events and prolonged service outages. They wanted a solution.

A series of major storms and hurricanes in 1999, 2003, 2005, 2006, 2010 and 2011 caused prolonged power outages in the District of Columbia due to downed power wires and

slow service restoration. In January 1999, following two severe ice storms and prolonged service outages, OPC petitioned the PSC to open an investigation into the causes of the prolonged outages.¹ In September 2003, Hurricane Isabel struck the District and in its wake left thousands of District residents without electricity for extended periods. OPC held a “Consumer Forum on Pepco Power Outages” on December 9, 2003, to discuss the community’s response and recommendations to the outage. At the forum, several key community leaders recommended placing all or a portion of the utility lines underground.² The power outages were so widespread and prolonged, and customer complaints so forceful, that the PSC directed Pepco to hire an independent expert – James Lee Witt Associates, LLC – to review Pepco’s actions in response to the storm.³ The Report provided an estimate of projected costs to bury existing utility lines. The PSC subsequently convened a working group to study this matter.

Prolonged weather-related service outages continued to plague the District. Severe thunderstorms on July 23 and 27, 2005 produced prolonged service outages of 80.4 hours and 38 hours, respectively (21,444 District customers, 55,118 customers system-wide out of service).⁴ OPC filed a request before the PSC to investigate Pepco’s restoration efforts during the July storms.

¹ Formal Case No. 982, *In the Matter of the Investigation of Potomac Electric Power Company Regarding Interruption to Electric Service During the Period January 14 -19, 1999*, Order No. 11604 at p. 16, rel. February 10, 2000.

² OPC Consumer Forum on Pepco Power Outages, December 9, 2003.

³ The report produced by that investigation – the “Witt Report” – contained a number of findings and recommendations which the Commission ordered Pepco to implement. Formal Case No. 982, *In the Matter of the Investigation of the Potomac Electric Power Company Regarding Interruption to Electric Energy Service*, Order No. 13381 at ¶ 93, rel. Sept. 15, 2004.

⁴ Formal Case No. 982, *In the Matter of the Investigation of the Potomac Electric Power Company Regarding Interruption to Electric Energy Service*, Order No. 13881 at ¶¶ 9 and 16, rel. February 16, 2006.

In 2009, the PSC commissioned an independent consultant to conduct an independent study of the economic and technical feasibility and reliability implications of undergrounding electric distribution lines in the District. The Shaw Report⁵ estimated that undergrounding would cost anywhere from \$1.1 billion to \$5.8 Billion dollars.

In February 2010, nearly 10,000 District residents suffered protracted winter storm outages.⁶ From January 26 - 31, 2011, the Washington area again experienced widespread electric outages as a result of an ice and snow storm;⁷ at its peak, 32,383 District customers were out of service.⁸ Consumer complaints were the same -- prolonged outages, slow restoration and ineffective communication from the utility.

The galvanizing event for change in the District was the derecho storm that struck the District in late June 2012 which, at its peak, left more than 75,000 District customers without power for more than a week during record high temperatures.⁹

The recurring issues running through the past fifteen years of major service interruptions have been the increased frequency of severe weather events and the resulting

⁵ *Study of the Feasibility and Reliability of Undergrounding Electric Distribution Lines in the District of Columbia*, July 1, 2010. Shaw Consultants International.

⁶ Potomac Electric Power Company, State of Maryland Major Storm Report February 5-12, 2010: Snow Storm, Maryland Public Service Commission Case No. 9220 (filed March 5, 2010).

⁷ Formal Case No. 766, *In the Matter of the Commission's Fuel Adjustment Clause Audit and Review Program*, Order No. 16188 at ¶ 12, rel. Jan. 31, 2011. See also, Pepco Struggles to End Power Outages, The Washington Post (January 31, 2011), available at <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/30/AR2011013004134.html>.

⁸ Formal Case No. 982, *In the Matter of the Investigation of the Potomac Electric Power Company Regarding Interruption to Electric Energy Service*, District of Columbia Major Service Outage Report January 26- 31, 2011: Snow Storm, February 22, 2011, at 1.

⁹ Formal Case No. 982, *In the Matter of the Investigation of the Potomac Electric Power Company Regarding Interruption to Electric Energy Service*, District of Columbia Major Service Outage Report June 29-July 7, 2012 DERECHO, July 30, 2012, at 3.

adverse impact on the overhead distribution system in the District. In each case, the vast majority of the District consumers suffering prolonged periods without electric service were those served by overhead distribution lines, -- primarily residential customers. Notably, the central business district and other areas served by underground distribution facilities were relatively unscathed by these severe weather events.

II. Why did OPC participate and what was its role?

OPC has relentlessly pursued the provision of reliable utility service. Former People's Counsel, Elizabeth Noel, first raised the issue and I have made it a cornerstone of my agenda. As People's Counsel and a member of the Task Force, my singular focus was on ensuring that a viable plan was developed that raised Pepco's reliability performance to the proper level as befits the nation's capital, without placing an unreasonable financial burden on ratepayers. I recognized from the outset that to produce Mayor Gray's "Game Changer" would require a paradigm shift by all parties.

My personal motivation was my commitment to a seemingly unsolvable problem of sustained power outages that have constantly plagued our city. Frankly, as People's Counsel, I could not in good conscience say no to an opportunity to participate in a Task Force that offered a real prospect for change and for meaningful improvement in reliability. OPC's participation in the Task Force also gave voice to the concerns and frustrations that the public has expressed over the past decade and which OPC has so zealously pursued before the PSC. The people, my clients and your constituents, have been very clear, that they pay their bills so they want the lights to stay on!

Last year, following the summer storms OPC conducted a city wide survey which showed that the overwhelming majority of consumers polled believed undergrounding power lines would reduce power outages. We presented our findings to the PSC and the Task Force.¹⁰

The simple reality is that the business as usual approach of contested rate cases did not produce the desired result. The regulatory and adversarial process before the PSC, with Pepco and OPC being the principal players, was mired in regulatory parameters limiting what could and could not be done. The PSC has plenary authority over Pepco, but no jurisdiction over any DC agency, such as DDOT. Also, including 100 percent of the costs of widespread undergrounding in Pepco rates would be cost prohibitive. Initial estimates ranged anywhere from \$10 to \$30 per month for the typical residential customer. From OPC's perspective, the countless petitions, rates cases, special investigations and working groups had not produced meaningful improvement in reliability. More importantly, the seemingly ever-lengthening periods required to restore service after major storm outages required that something be done.

For me, the leadership moment came in recognizing that the Task Force required each of us to step upon a new path. It was obvious that the same participants, fighting the same reliability fight, in the same boxing ring, and expecting a different result, was an unrealistic option.

III. What was accomplished?

The end result of the task force efforts was a solution-driven plan. The undergrounding project is an aggressive, yet comprehensive approach to quickly address reliability problems. Undergrounding D.C.'s overhead power lines could be done on a piecemeal basis, with a few

¹⁰ "Selected Findings of the Office of the People's Counsel's Pepco Power Outage Survey," October 11, 2012.

lines being placed underground as a result of each distribution rate case, but that approach would likely take decades to complete. If we were to rely on the traditional rate case process we could not achieve the time sensitive improvements needed to support an electrical system that is more than 100 years old. Further, full rate base treatment would significantly inflate the costs. The proposed legislation will create a process that holds the promise of establishing a 21st Century storm-resilient distribution grid quickly and affordably. The 7-10 year construction plan means “today’s” ratepayers will see positive results in a very short term.

IV. What are the consumer benefits?

First, it is responsive to consumers’ long-expressed support for undergrounding. Second, the plan as designed will reduce storm and weather-related outages, reduce outage reductions by 92%, and decrease the frequency of overhead service interruptions by 97%. Third, the bill impact will not place a huge financial burden on consumers. Fourth, the plan will be completed within a 7 to 10 year period, a much shorter timeframe than would have been possible in any series of contested cases before the PSC. Finally, the plan requires regulatory approval with an opportunity for consumer review and comment.

What are the assurances this will happen?

Reliability: The undergrounding project will significantly reduce the frequency, extent and duration of electric service outages caused by severe weather events, particularly service outages caused by storm damage to trees. Placing the most significant lines underground will make the District much less vulnerable to such outages. An extensive technical engineering analysis conducted by Pepco of all feeders serving the District identified the worst performing feeders. Undergrounding approximately 60 of these feeders will effectively reduce storm

related outages with a resulting increase in reliability. The two-step selection process targets the worst performing feeders and then prioritizes them based on the secondary factors. The PSC's new reliability standards will also be in effect.

Prolonged outages are demonstratively bad for business and bad for the quality of life of our residents. Power outages impose direct and indirect costs to residential consumers. The direct costs include loss of food, loss of medication, health and safety effects, loss of earning, inconvenience, costs of eating out and staying in hotels. The indirect costs include the effect on relief agencies, as well as the effect on employers whose employees could not report to work. While no specific studies have been conducted in DC, in Montgomery County, Maryland, a report prepared by the Montgomery County Maryland Working Group, estimated that the annual cost of outages could be about \$240.¹¹ Other estimates calculate the costs as high as \$500 per year for a consumer consuming 750KWH of electricity per month.¹²

These estimates exclude system costs related to service restoration and equipment repair which are allocated to all customers. For example, Pepco has requested \$8.4 million in storm related costs in its current rate case.¹³ As importantly, prolonged electric service outages drag down the entire District economy and harm all consumers, even those who do not lose service in a given outage.

Affordability: OPC has worked to ensure that the costs anticipated from the implementation of this legislation are reasonable. This was a primary goal for OPC. An

¹¹ Montgomery County Maryland Pepco Work Group Final Report, April 20, 2011.

¹² Aaron J. Praktijnjo, Alexander Hahnel, George Erdmann, 2011. Assessing energy supply security: Outage costs in private households. Energy policy, Volume 39, Issue 12, pp. 7825-7833.

See also: A framework and Review of Customer outage Costs: Integration and Analysis of Electric Utility Outage Cost Surveys, Lawrence Berkley National Laboratory, November 2003.

¹³ Formal Case No. 1103, Pepco Exhibit XXX?

affordable monthly bill was OPC's "line in the sand." The funding model includes issuance by the District government of securitized debt and contribution by the District government of "in kind" services that will save ratepayers millions over the funding term. Various funding options were considered. Some were non-starters and others simply were not viable. The funding mechanism ultimately selected met my goal of keeping the rates low. The projected monthly billing impact ranges from a start of \$1.50 a month to high of \$3.75 in year 7, and descending thereafter. Low income consumers on the RAD and RES will see no increases at all. Under this mechanism, Pepco will not earn a rate of return on \$500 million dollars of the \$1 billion dollars total cost. The total expenditures for the project are capped by the legislation at \$1 billion.

Regulatory oversight, prior PSC approval of projects, and public participation included in the plan are important consumer protections. The PSC is required to pre-approve all charges and projects before any work is undertaken. A Financing Order will authorize the establishment of a surcharge for the recovery of the cost of the securitized bond repayment. A separate order will approve the plan for undergrounding projects and a separate charge for recovery of Pepco's investment costs. The PSC will review the applications for a Financing Order, the construction plan and Pepco's charges. An opportunity for public comment and, if needed, a hearing is required. Both charges will be subject to an annual true-up. OPC and any interested party can participate in this process.

Pepco and DDOT must file a Triennial Underground Infrastructure Improvement plan every three years. The plan will identify the feeders Pepco and DDOT proposal to place underground during the next 3-year period. The plan requires public notice, an opportunity to intervene, protest, conduct discovery and if needed a public hearing. Consumers will have a

full opportunity to examine and comment on the plan. This process is in sharp contrast to Pepco's Reliability Improvement Mechanism (RIM) plan, which OPC opposed and the PSC rejected in Pepco's last rate case.

Timely Construction Plan

The plan establishes a 7-10 year construction timeline. This compressed timeline assures that present customers will see short-term improvements. Inter-generational inequities that so often accompany long term construction projects will be avoided. Further, the coordination between Pepco and DDOT will eliminate customer inconvenience of having to live through multiple street cuts in their neighborhoods.

A related ancillary benefit of the plan is the potential positive impact on the District's economy. Reductions in outages provide new businesses and the 1,100 new residents per month moving to DC an added incentive to relocate here.

Education and Outreach

The success of this legislation will also be determined by the extent to which it meets another of OPC's core requirements: the development of a strong community outreach and education plan. The plan must be transparent and understandable to consumers. Consumers must know what they are getting, how it will impact their lives and who they can contact when and if problems arise. OPC has recommended specific community outreach and education goals to the Task Force, and has offered our services in support of a citywide effort to inform and prepare individuals and communities of the work in their areas. As you know, this is a large scale project. There will be disruptions, but they need not cripple our communities.

Coordinated efforts and cooperation will be essential. Working together will get us through this, together.

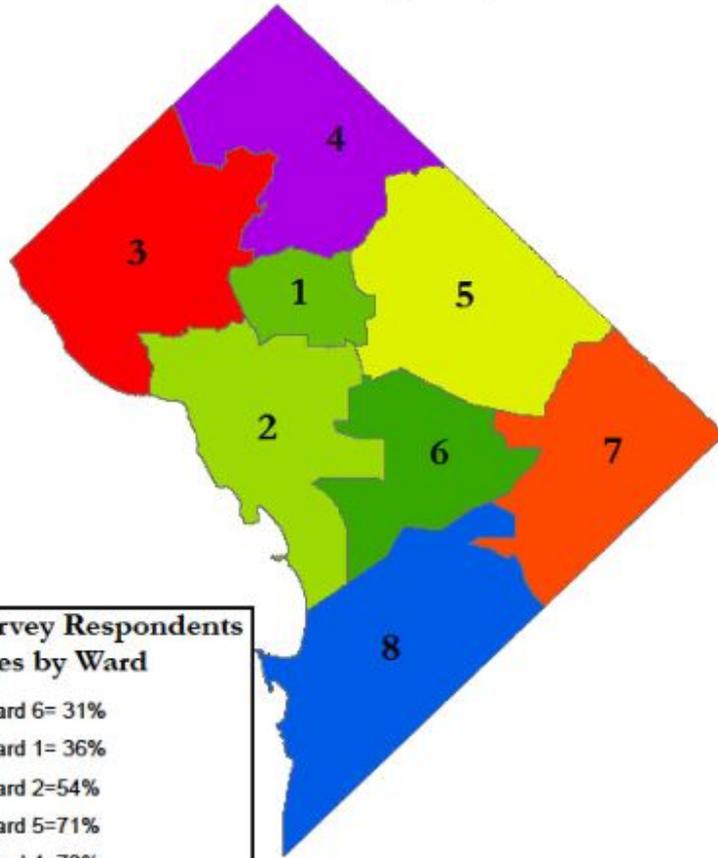
Conclusion

The Powerline Undergrounding Plan targets the worst performing feeders across the city; the cost to consumers is reasonable; it shields low-income consumers from any increase; and, it allows for meaningful consumer review and input before anything is done. It is also a product of a process that included consideration of alternative options to improve system reliability and resiliency. I believe this plan goes a long way in meeting the challenge of establishing a first rate electric utility that provides service that is safe, adequate, reliable and affordable.

The work is not done but just beginning. Thank you again.

I am available for any questions.

**Percentage of Survey Respondents Reporting
The June 22/29, 2012 Power Outages, by Ward**

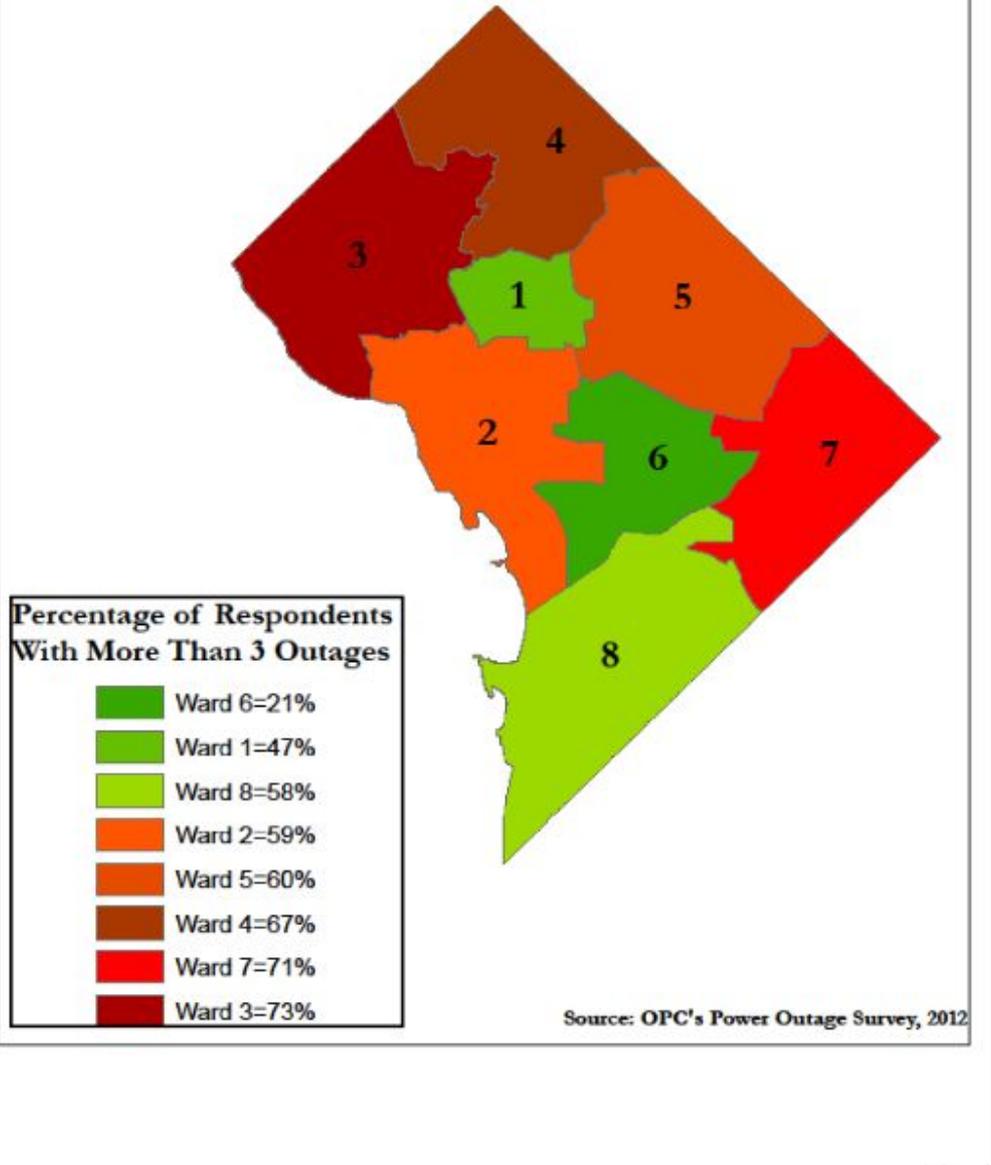


**Percentage of Survey Respondents
Reporting Outages by Ward**

Dark Green	Ward 6= 31%
Medium Green	Ward 1= 36%
Light Green	Ward 2=54%
Yellow	Ward 5=71%
Purple	Ward 4=73%
Blue	Ward 8=78%
Orange	Ward 7=83%
Red	Ward 3=88%

Source: OPC's Power Outage Survey, 2012.

Percentage of Survey Respondents Who Indicated They Experienced 3 or More Outages in The Past Year



Will Undergrounding Reduce Power Outages?

